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SUBJECT: SOUTH AFRICA: NO SAFEGUARD PROTECTION
FOR THE TEXTILES AND APPAREL INDUSTRIES

REF: (A) PRETORIA 3823 (B) PRETORIA 2238 (C)
PRETORIA 1365

1. (U) Summary. While the South African textile and clothing industries complained about cheap imports from China, the South African government announced that it was not prepared to employ safeguards for an extended period to limit imports from China. Government officials criticized industry for a lack of creativity, vision, and entrepreneurship, as well as failing to adjust to the demands of a changing global competitive environment. Notwithstanding this hard line, the Minister of Trade and Industry indicated that he would take the matter up with the Chinese, work to stiffen customs inspection to keep out illicit imports, and support extending the duty credit scheme. End summary.

Chinese Imports

2. (U) According to representatives of the textiles and clothing industries, cheap Chinese imports are the single most vexing problem that the industry faces in South Africa. Helena Claasens, Economist at the Textile Federation of South Africa (Texfed), claims that Chinese clothing imports have grown by over 400% since 2001, contributing to numerous factory closings and job losses. Texfed supplied the following supporting data on South African apparel and textile imports from China for the period January 2005 to August 2005.

	% of total imports
Apparel:	
Volume: 239 million units	86%
Value: \$R2.3 billion*	76%
Household textile:	
Volume: 19,586 ton	60%
Value: \$R110 million*	49%
Industrial textiles:	
Volume: 26,993 ton	42%
Value: \$697 million*	40%

*Note: using rand/dollar exchange rate of 6.5.

The U.S. Market

3. (U) South African clothing manufacturers are also taking it on the chin when it comes to exports to the United States - even with AGOA trade preferences. According to the latest United States Department of Commerce data, the total value of South African apparel and textile exports to the United States fell by 49% (apparel) and 5% (textiles) during the first nine months of 2005 compared to the same period in 2004. United States imports of South African apparel exports totaled \$108.6 million in the first nine months of 2004, but declined to \$55.3 million for the same period in 2005. AGOA apparel also decreased from \$92.1 million to \$54.6 million during this period, representing a decrease of 40%.

Government's View

4. (U) Although both the textiles and clothing industries in South Africa have applied for safeguard protection in recent months, Minister of Trade and Industry Mandisi Mpahlwa said his department did not plan to invoke safeguard measures to limit cheap imports from China.

Despite huge pressure from industry and labor, the government was not convinced that safeguards by themselves could save the industry. Mpahlwa stressed that it was the responsibility of industry to save itself by adapting to global competition. Nevertheless, Mpahlwa said that he would raise the surge in imports from China in government-to-government talks with that country. He added that customs inspection should be stiffened to prevent illegal or underinvoiced imports, and also that his department had recommended that the duty credit scheme be extended. The duty credit certificate scheme is an export-incentive programme, providing duty credit certificates to firms according to proven exports.

15. (U) At a recent parliamentary hearing, Department of Trade and Industry (DTI) Deputy Director General Iqbal Sharma stated that the South African government wanted to foster a strategic and long-term relationship with China based on economic cooperation and common approaches to broader global and geopolitical issues. The South African government's strategic long-term trade and political relationship with China would not be sacrificed for a textile and clothing industry that had failed to meet global competition. Sharma blamed industry for having made little use of existing safeguards that provided what he termed "extensive protection and time" to restructure before international quotas were removed on January 1, 2005. He further criticized the "alarming lack of creativity, entrepreneurship, vision, and leadership" in the clothing and textile industry.

Government Assistance -----

16. (U) Apart from the proposed government-to-government talks with China, the Department of Trade and Industry recommended extending the duty credit scheme and the development of a customized sector program to assist industry. Mpahlwa also proposed improving customs inspection to reduce illegal or underinvoiced imports from China and elsewhere. Meanwhile, the clothing industry is lobbying for the review of import tariffs on textiles, with an eye to reducing costs for local manufacturers.

Industry Reaction -----

17. (U) Igsaan Salie, President of Texfed, was surprised to learn that the government's view towards safeguards seemed to have undergone an about-face. Keith Robson, Director of South African Clothing Industries, saw Sharma's remarks as "most unfortunate" in light of the need for a cooperative relationship between business and government to tackle the issue. The Clothing Trade Council of South Africa (CLOTRADE) welcomed Mpahlwa's statement on talks with China, and a possible solution to the surge of cheap Chinese imports. Texfed's Claasens warned against a possible negative result from a review of textile import tariffs, pointing out that South Africa's applied rates were either equal or very close to their bound rates. A review could conceivably lead to some tariffs being lowered.

Comment -----

18. (U) Although the change in the South African government's view towards safeguards could be interpreted by industry as a kick in the teeth, bilateral talks with China might bring the first real relief to an industry in distress.

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